

**COMMENTS BY THE ATMOS PIPELINE-TEXAS DIVISION
OF ATMOS ENERGY CORPORATION**

Atmos Energy Corporation’s (“Atmos Energy”) Atmos Pipeline-Texas Division (“APT”) submits these timely filed comments in support of the proposed amendments to 16 Tex. Admin. Code (“TAC”) § 7.455 (“Proposed Curtailment Standards”) approved for publication by the Railroad Commission of Texas (“Commission”) on November 8, 2021, and published in the November 26, 2021 issue of the *Texas Register*¹.

I. OVERVIEW AND SUPPORT FOR THE RULE

A. Description of APT and Its Unique Perspective in Providing Comments in this Docket

APT is an unincorporated division of Atmos Energy Corporation. APT is an intrastate natural gas transmission pipeline operating solely in Texas. APT is one of the larger intrastate pipelines in Texas, consisting of approximately 5,700 miles of transmission pipeline, approximately 700 city gate meters, five underground storage facilities, and 48 gas compressors with a total of approximately 140,000 horsepower.

The APT pipeline system serves a geographical area bounded by the Oklahoma border; the Katy hub near Houston; the Carthage hub in East Texas; the Waha hub in West Texas; and the Austin/Hill Country area. APT serves three distinct customer segments: (i) the local distribution company (“LDC”) market segment; (ii) the on-system (i.e., directly served by APT) industrial segment (except for certain industrial customers that are served under negotiated rates and are in the Other Revenue segment); and (iii) the Other Revenue segment consisting principally of certain

¹ 46 Tex. Reg. 7943-7944 (Nov. 26, 2021).

interruptible industrial customers, through-system transportation (e.g., customers that utilize APT to deliver volumes to another pipeline) and electric generation.

APT only provides firm transportation and firm storage service to the LDC market. These services are the highest priority of APT and are designed to satisfy the gas demands of human needs customers as they vary throughout the year. The provision of these services involves the delivery of gas to city gate stations connected to APT and are pursuant to the cost-of-service rates set by the Commission. These services are under Commission-set cost of service rates because the customers generally have no viable competitive pipeline delivery connections and therefore are dependent upon APT for delivery of their gas. These customers are in the CGS rate class.

The transportation services provided by APT to its industrial customers are interruptible and are under cost-of-service rates set by the Commission. These services involve deliveries directly to the customers' facilities where the gas is consumed. In other words, they are end-users of natural gas, such as manufacturing facilities. These customers are in the PT rate class and are served at cost-of-service rates because they do not have viable competitive options to APT. APT does provide transportation to a few industrial customers under negotiated rates where the situation qualifies for Texas Utilities Code, Section 104.003(b) rate treatment. These customers are in the Other Revenue rate class.

APT's transportation services to producers and marketers are interruptible and are provided pursuant to negotiated rates. These services generally involve transportation from pipelines, gathering or production facilities to pipeline takeaway points on APT's system where the gas is delivered to other pipelines for further transportation to an ultimate customer. These services to producers and marketers are often referred to as "through system" deliveries. Rather than being solely end-users of natural gas, these customers put natural gas on the system for delivery

elsewhere. Through contracts with these customers, APT can attract supply to the APT system that would not otherwise be available, which benefits all APT customers by increasing redundancy of supply and optionality of supply on the system for on-system customers. All of these services are provided under negotiated rates because they qualify for such rates pursuant to Texas Utilities Code, Section 104.003(b). Due to the nature of the service provided, these customers negotiate a price and often make capital investments that result in a higher contractual priority on the system when compared to other types of interruptible customers. The through system customers are in the Other Revenue rate class.

APT's transportation services to electric generation companies are interruptible and are provided pursuant to negotiated rates. These services typically involve deliveries to the customers' electric generation plants where the gas is consumed in the generation process. Like customers in the PT rate class, electric generation customers are usually solely end-users of natural gas rather than "through system" deliverers of natural gas. Unlike customers in the PT rate class, electric generation customers almost all have viable competitive pipeline delivery connections and are not dependent upon APT for the delivery of their gas. These services are provided under negotiated rates because they qualify under Texas Utilities Code, Section 104.003(b). These customers are in the Other Revenue rate class.

APT offers services to producers and marketers that are ancillary to the transportation of gas for these customers. These services are interruptible; and are provided under negotiated rates because they qualify under Texas Utilities Code, Section 104.003(b). The customers for the ancillary services are in the Other Revenue rate class.

B. APT's Support for the Proposed Curtailment Standards

The Proposed Curtailment Standards properly recognize the two most important policy considerations of natural gas prioritization: (1) that all firm service is higher-priority than all

interruptible service and (2) that human-needs customers are higher-priority than all other firm customers. Those two principles underly the entire gas utility industry in Texas and are immutable. Beyond those two principles, everything else is a priority choice for the Commission to consider in this proceeding.

The Proposed Curtailment Standards as written recognize the operational necessity of prioritizing human-needs customers – which for APT amounts to its LDC customers – over all others who receive service from natural gas pipeline operator. To understand the importance of this fact, one must first understand the operational considerations at stake.

During normal operations, gas supply into the system equals demand out of the system, and pressures and flows are confined to a relatively narrow, stable operational band. If, however, supply volumes into the system are interrupted, system pressure will fall. This, in turn, can impact the ability of the system to deliver gas where it is needed. While line pack can absorb short-term pressure fluctuations, extended interruptions or decreases in gas supply will cause system pressures to degrade. These insufficient pressures can, if severe enough, lead to a loss of gas service.

If a company's local distribution system fails due to pressure loss, it means that customers that rely on that system will lose natural gas service and, unlike electric service, the gas utility must manually restore service at each household and business served by that system. This process can take days to months depending on the size of the system and number of customers impacted and contrasts starkly with the electric power system where a switch can be activated from miles away and all the homes on a particular electric distribution feeder have their electric service restored.

If the pressure is lost at the end of a gas system, the system must be isolated from the rest of the natural gas system for safety reasons. This means that service to customers on that system

will be interrupted because the gas utility must close the main valve(s) and/or excavate the main to interrupt the gas flow. Additionally, the gas utility must go to every home receiving gas service to manually turn off the inlet valve at the meter. Any remaining gas in the system is vented to the atmosphere.

Once natural gas supply pressure returns, the gas utility must first purge the air from the line to continue the safe operation of its system. Lastly, a service tech, or other qualified employee, must revisit each customer to re-initiate gas service by entering each home to close each appliance valve, perform a safety check on the customer's piping, open the valve supplying gas to the home, and relight any pilot lights.

If APT had not prioritized its LDC customers during Winter Storm Uri or had been unable to provide service that allowed the LDC's to continue serving human needs customers, it would have taken approximately 600 employees 15 consecutive days to restore service for every 50,000 customers who lost service, under the best of conditions. Importantly, service restoration is dependent on having available human resources, which often is the result of mutual assistance rendered by other utilities that have not been impacted by the weather event. Winter Storm Uri, however, was a major coast-to-coast storm that spread snowfall and damaging ice from the Northwest into the South, Midwest, and Northeast. The storm was also followed by the south-central states, including Texas, experiencing the coldest temperatures in decades. For example, temperatures in the Dallas/Fort Worth area dropped to minus 2 degrees, which was the coldest temperature experienced in the area since it hit minus 2 degrees in 1949. This temperature was only 6 degrees shy of the all-time record low of minus 8 degrees set in 1899. Similarly, San Angelo, Texas, tied its second-coldest all-time record low after falling to minus 1 degree on Monday, February 15, 2021. Given the breadth of Winter Storm Uri's impact, weather and road

conditions would likely have delayed mutual assistance to restore customer service in the event of a natural gas distribution system failure and therefore extended the outage.

II. ADDITIONAL COMMENTS ON PROPOSED CURTAILMENT STANDARDS

As discussed in detail below, in order to improve upon the rule as written and enable proper implementation of the rule, APT is seeking clarification of ambiguous language in the Proposed Curtailment Standards as well as requesting guidance as to the Commission's intent for the operation of the Proposed Curtailment Standards in various situations. APT also will provide comments on policy and implementation implications that it would like the Commission to consider before finalizing the Proposed Curtailment Standards.

A. Definition of Curtailment Event

Proposed §7.455(a)(2) defines Curtailment Event as follows:

(2) Curtailment event--When a gas utility determines that its ability to deliver gas may become inadequate to support continuous service to its customers on its system and it reduces deliveries to one or more customers.

First, just as a point of clarification, some intrastate pipelines in Texas solely provide transportation services while others also provide bundled sales. The first addition in redline below (the addition of "transport or") makes it clear that a curtailment event can occur regardless of the services being provided.

Secondly, the other edits in redline below (the addition of the word "firm" in two instances) recognizes the important distinction between customers who receive firm services and customers who receive interruptible services. Inherent in the very concept of interruptible service is that it is subject to interruption. Interruptible services may be interrupted in a variety of contexts that do not and should not necessarily constitute a "curtailment event."

For example, if every interruptible customer on APT tried to nominate for transportation the maximum quantity of gas that their contracts allowed, many would necessarily not have their nominations confirmed. Their full volumes would not flow. This is not a “curtailment event” but rather an interruption. This type of situation is specifically contemplated in an interruptible contract or in an interruptible tariff. Contrast this with firm service, which currently can typically only not be provided as a result of an event of Force Majeure or in accordance with the Commission’s approved curtailment priority for that utility.

Based on the foregoing, Atmos Energy respectfully request that the Commission consider making the following changes to proposed §7.455(a)(2):

(2) Curtailment event--When a gas utility determines that its ability to transport or deliver gas may become inadequate to support continuous service to its firm customers on its system and it reduces deliveries to one or more firm customers.

APT also respectfully requests that the Commission clarify that a Curtailment Event can be localized to geographic or functional areas, and the mere inability of a pipeline to effectuate transportation or deliveries on one part of its system should not result in the disruption of lower priority services if such disruption would have no impact on that utility’s ability to serve any higher priority customers.

B. Definition of Electric Generation Facilities

Proposed §7.455(a)(3) defines “Electric generation facilities” as follows:

(3) Electric generation facilities--Includes bulk power system assets, co-generation facilities, distributed generation, or backup power systems.

A major underlying policy thrust of this rule and legislation and other rulemaking responsive to the February 2021 winter event is to take steps to secure natural gas for the production of electricity during a curtailment event. The focus of those efforts has been on what the definition above describes as “bulk power system assets,” i.e., electric generation facilities that

are powered by natural gas. APT is prepared to support that policy goal to the best of its abilities. However, APT does have some additional comments that relate to the expanded nature of the definition of electric generation facilities in the rule.

Many of the terms in the definition of electric generation facilities are vague, subjective, or undefined themselves. At its broadest interpretation, any customer with a backup gas-fired generator, regardless of its size, business, or need, would be considered an “electric generation facility.” APT understands “distributed generation” to refer to any technology that generates electricity at or near where it will be used, which is a very broad definition. Similarly, the term “co-generation facilities” is broad in that it could refer to a customer that produces electricity for its own consumption, for sale to the electric grid, or both.

Proposed §7.455(a)(3), as written, creates a standard that is hard for both utilities and customers to apply and understand, which would have negative consequences in a future emergency event. It also does not distinguish between the relative impact of the curtailment of gas to these customers on either those customers or the state’s electric grid. APT believes the Commission’s intent in proposed §7.455(a)(3), consistent with its emergency order issued during Winter Storm Uri, was to ensure that electric generation within the state taking firm service would have higher priority access to natural gas services than all but firm human needs customers.

Based on the foregoing, APT respectfully requests that the Commission consider modifying proposed §7.455(a)(3) to read as follows:

(3) Electric generation facilities--Includes bulk power system assets, and co-generation facilities registered with the applicable balancing authority as defined in the reliability standards of the North American Electric Reliability Corporation. ~~distributed generation, or backup power systems.~~

In making the requested changes, the proposed §7.455(a)(3) would accomplish the Commission's goals, while removing the ambiguity in the proposed §7.455(a)(3).

With regard to distributed generation, APT submits that it could be addressed separately by providing that distributed generation receive a prioritization equal to that of its lowest-priority electric customer. For example, distributed generation exclusively serving regular commercial loads should be accorded a higher priority than distributed generation serving both large industrial customers and regular commercial loads. This would prevent potential abuse of the Curtailment Standards where a distributed generator tried to elevate the priority of electric service to one class of customer over the priority of gas service that customer would qualify for.

C. Policy Considerations regarding Plant Protection Provision

The Priorities section of proposed §7.455(d) states as follows in pertinent part:

(d) Priorities.

(1) Unless a gas utility has an approved curtailment plan pursuant to subsection (e) of this section, a gas utility shall apply the following priorities in descending order during a curtailment event:

(A) firm deliveries of natural gas to human needs customers and firm deliveries of natural gas to local distribution systems which serve human needs customers;

(B) firm deliveries of natural gas to electric generation facilities;

(C) firm deliveries of natural gas to industrial and commercial users of the minimum natural gas required to prevent physical harm and/or ensure critical safety to the plant facilities, to plant personnel, or the public when such protection cannot be achieved through the use of an alternate fuel;

Historically, APT has offered plant protection service to its interruptible industrial customers for an additional charge. Through the operation of §7.455(d)(1)(H), which would prioritize interruptible service according to the priorities listed in subparagraphs (A) - (G), these customers would effectively receive that service for free during Curtailment Events.

Currently, APT's interruptible customers request the amount of plant protection service they want to purchase, subject to APT's review and approval. It is not clear how utilities such as

APT are supposed to determine what the appropriate amount of plant protection² is for each of their customers. Given the large number of customers that would have plant protection requirements and the likelihood that customer plant protection levels could change over time, APT would continue to review for approval any plant protection request and to the extent practicable, build into its rate schedules language indicating that it would be incumbent upon customers to self-identify as having different plant protection levels through a regular certification process.

D. Recognition of Contractual Provisions Governing Interruptible Service

The lowest priority in subsection (d) reads as follows:

(H) interruptible deliveries of natural gas made subject to interruption or curtailment under mutually agreed upon contracts and/or tariffs. Interruptible deliveries shall be made according to the priorities as listed in subparagraphs (A) - (G) of this paragraph.

Depending upon the ultimate determination of the definition of “Curtailment Event” and when these priorities are in effect, the second sentence in §7.455(d)(1)(H) could have dramatic impacts on APT’s customers, contracts, and rates. Whenever a Curtailment Event was in effect, the second sentence in proposed §7.455(d)(1)(H) would run counter to the priorities that are imperative for the safe and effective operation of the system, which are the priorities in effect in existing interruptible contracts and tariffs. As mentioned above, if supply volumes into the system are interrupted, system pressure will fall. This, in turn, can impact the ability of the system to deliver gas where it is needed. Therefore, it is operationally necessary to give higher priority to interruptible customers who enable APT to attract gas to and retain gas supply on the system, which is why APT’s contracts with these customers are structured to ensure that happens.

² For example, a glass or plastics factory may need a significantly higher percentage of its normal usage than other manufacturing facilities in order to prevent its raw materials from cooling and irreparably damaging its equipment, while an outdoor kiln with no indoor fire suppression system may not need any gas to protect its plant.

Overriding this priority system would not only be operationally detrimental, it would also interfere with APT's customers' ability to receive the level of service for which they have contracted and paid, and which sometimes has involved substantial capital investment on the part of the customer. Currently, interruptible customers pay rates commensurate with the priority level in their contracts and tariffs. If a Curtailment Event were to be in effect anytime a utility determined that its ability to transport or deliver gas may become inadequate to support continuous service to any customer on its system, it would fundamentally alter the value of services received by the various classes of customers enumerated in this rule.

Implicit in the agreement of any customer to subscribe to an interruptible service is the recognition that service may be interrupted. This is recognized in the current general curtailment priority in Docket Order No. 489, where the lowest priority is:

Interruptible sales made subject to interruption or curtailment at Seller's sole discretion under contracts or tariffs which provide in effect for the sale of such gas as Seller may be agreeable to selling and Buyer may be agreeable to buying from time to time.

Interruptible services should not have their priority determined by the Commission's Proposed Curtailment Standards. Rather, they should all collectively be the lowest priority of service, exactly as they are now, and their priority should be determined by the agreement struck by the contracting parties or assigned to that service in the applicable tariffs, which reflect the operational necessities inherent in prioritizing these customers on APT's system. To do otherwise would have the Proposed Curtailment Standards potentially worsening the operational effects of a Curtailment Event as well as effectively dictating the value of interruptible services. It may inhibit the ability of parties to enter into interruptible contracts, as opposed to allowing the parties to the contract to determine the operational and price terms governing the service that result in the safe operation of the system.

In sum, APT's transmission pipeline system was designed to serve human needs customers by transporting gas to local distribution companies. It serves additional, interruptible customers through specially designed contracts and tariffs that support the safe operation of APT's system for the primary purpose of serving LDC's. These carefully constructed contractual agreements provide value to all of APT's customers through operational stability and revenues that off-set cost of service. Altering the terms of service to these customers, especially through changing the level of priority they receive, would disrupt the operation of APT's system and fundamentally alter the services it could offer to potential non-LDC customers.

E. Service on an Equal Basis

Subsection (2) under Priorities states as follows:

(2) Customers within a priority class which is subject to curtailment shall be curtailed to the extent practicable on an equal basis. If a customer's end-use requirements fall under two or more priorities, then such requirements must be treated separately when applying this schedule of priorities. Transportation customers have equivalent end-use priorities as sales customers.

APT agrees with the concept expressed in this subsection. However, as a practical matter, a Curtailment Event is likely to affect only a portion of the natural gas system of any given operator (especially one that covers such a large portion of the State of Texas as does APT's system). When that happens, clearly this provision should only be applicable to the customers that are on the portion of the system subject to the Curtailment Event. To make this clear, Atmos Energy suggests adding the words "on the portion of the system," as reflected in the redline below. Also, given the complications that can arise due to the fact that many customers have multiple meters that would be classified in different priority groups under this rule, APT believes that treating those meters separately should only be done to the extent that it is operationally practicable and has added language to that effect in the redline below as well.

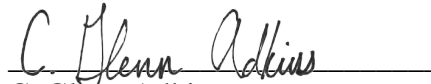
Based on the foregoing, APT respectfully requests that the Commission consider modifying proposed §7.455(d)(2) to read as follows:

(2) Customers within a priority class on the portion of the system which is subject to curtailment shall be curtailed to the extent practicable on an equal basis. If a customer's end-use requirements fall under two or more priorities, then such requirements must be treated separately when applying this schedule of priorities to the extent practicable. Transportation customers have equivalent end-use priorities as sales customers.

III. CONCLUSION

Atmos Energy Corporation appreciates the opportunity to submit these comments and looks forward to working with the Commission, Staff, and other interested parties to developing the final version of this significant rulemaking.

Respectfully submitted,



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